

LAKE HAVASU CITY, ARIZONA

FISCAL SUSTAINABILITY POLICY

AUGUST 2007

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Introduction

The City has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The City needs to ensure that it is capable of adequately funding and providing those government services desired by the community taking into account tight budgets, major changes in federal and state policies toward local government funding, and changes in economic conditions. Ultimately, the City's reputation and success will depend on the public's awareness and acceptability of the management and delivery of these services.

This Fiscal Sustainability Policy document is intended to establish guidelines for the City's overall fiscal planning and management. These principles are intended to foster and support the continued financial strength and stability of Lake Havasu City as reflected in its financial goals. The financial goals are broad, fairly timeless statements of the financial position the City seeks to attain:

- To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in Lake Havasu City.
- To provide essential public facilities and prevent deterioration of the City's public facilities and its capital assets.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the City's residents.
- To protect and enhance the City's credit rating in the financial community to assure the City's taxpayers the City government is well managed and financially sound.
- To insure the legal use of all City funds through adherence to the highest accounting and management practices as set by the Government Finance Officers' Association standards for financial reporting and budgeting, by the Governmental Accounting Standards Board and other professional standards, and by adherence to State Law.

Following these principles will enhance the City's financial health as well as its image and credibility with its citizens, the public in general, bond rating agencies and investors. It will also protect the Council's policy-making ability by ensuring that important policy decisions are not controlled by financial problems or emergencies.

To achieve these purposes, it is important to regularly engage in the process of financial planning, including reaffirming and updating these financial policies as Lake Havasu City continues to grow and develop. Policy changes will be needed as the City continues to grow and become more diverse and complex in the services it provides, as well as the organization under which it operates to provide these services to its citizens.

I Fiscal Planning

Fiscal planning refers to the process of identifying resources and allocating those resources among competing purposes. The primary vehicle for this planning is the preparation, monitoring and analysis of the City's budget. It is increasingly important to monitor the performance of the programs competing to receive funding.

- 1.01 The City Manager shall submit to the City Council a proposed annual budget, with their recommendations, and shall execute the budget as finally adopted, pursuant to ARS §42.17101 through §42.17105. The City will budget revenues and expenditures on the basis of a fiscal year which begins July 1 and ends on the following June 30. The City Council will adopt the budget no later than June 30.
- 1.02 The City uses a five-year long-range financial forecasting system that will incorporate both revenue and expenditure estimates for all of the City funds. The five-year long-range forecast will be updated annually and presented to the City Council prior to the start of the City budget process.
- 1.03 The City will prepare a budget in accordance with the guidelines established by the Government Finance Officers Association in its Distinguished Budget Award Program. The proposed budget will contain the following:
 - a) Revenue estimates by major category, by major fund
 - b) Expenditure estimates by program levels and major expenditure category, by major fund
 - c) Estimated fund balance by major fund
 - d) Debt service by issue detailing principal and interest amounts by fund
 - e) Proposed personnel staffing levels
 - f) A detailed schedule of capital projects
 - g) Any additional information, data, or analysis requested of management by the City Council
- 1.04 The operating budget will be based on the principle that current operating expenditures, including debt service, will be funded with current revenues creating a balanced budget. The City will not balance the current budget at the expense of meeting future years' expenditures; for example accruing future years' revenues or rolling over short-term debt to avoid planned debt retirement.
- 1.05 The budget will fully appropriate the resources needed for authorized regular staffing. At no time shall the number of regular full-time employees on the payroll exceed the total number of positions authorized by the City Council. All personnel actions shall be in conformance with applicable federal and state law and all City ordinances and policies.
- 1.06 The Finance Department in consultation with the City Manager shall provide annually a budget preparation schedule outlining the preparation timelines for the

proposed budget. Budget packages for the preparation of the budget, including forms and instructions, shall be distributed to City departments in a timely manner for the Department's completion. Department officials shall prepare and return their budget proposals to the Finance Department, as required in the budget preparation schedule.

- 1.07 Performance measurement indicators will be integrated into the budget process as appropriate.
- 1.08 Alternatives for improving the efficiency and effectiveness of the City's programs and the productivity of its employees will be considered during the budget process. Duplication of services and inefficiency in service delivery should be eliminated wherever they are identified. Where practical, this will be accomplished by conducting performance audits of department operations on a rotating basis.
- 1.09 For major projects, the unencumbered and encumbered balances will be considered for reappropriation in the subsequent fiscal year.
- 1.10 The City's annual budget will include contingency appropriations in each fund sufficient to provide for unanticipated increases in service delivery costs and needs that may arise throughout the fiscal year. Expenditures from these contingency appropriations can only be undertaken with separate Council action and only if funds are not available in the department requesting the contingency funding.
- 1.11 Department heads are required to control expenditures to prevent exceeding their total departmental expenditure budget. It is the responsibility of these department heads to immediately notify the Finance Director and the City Manager of any exceptional circumstances that could cause a departmental expenditure budget to be exceeded.
- 1.12 A quarterly report on the status of the major funds budgets with a CIP status report will be prepared by the Finance Department and presented to the City Council within 60 days of the end of each quarter.
- 1.13 If a deficit is projected during any fiscal year, the City will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using the General Fund Contingency appropriation, to the extent necessary to ensure a balanced budget at the close of the fiscal year. The City Manager may institute a cessation during the fiscal year on hirings, promotions, transfers, and capital equipment purchases. Such action will not be taken arbitrarily and without knowledge and support of the City Council.

II Fund Balance

Fund balance is an important indicator of the City's financial position. Adequate fund balances must be maintained to allow the City to continue providing services to the community in case of economic downturns and/or unexpected emergencies or requirements.

- 2.01 Lake Havasu City's General Fund, Irrigation and Drainage District Fund, Wastewater Fund and Highway Users' Revenue Fund balances will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- 2.02 The City will maintain a 'Contingency Fund' reserve in the General Fund of five percent (5%) of the average actual fund revenues for the preceding five fiscal years. In the event these 'Contingency' funds must be used to provide for temporary funding of unforeseen emergency needs, the City shall restore this specific 'Contingency' reserve to the minimum five percent (5%) limit within the next two fiscal years following the fiscal year in which the event occurred.
- 2.03 The City will maintain an additional General Fund reserve upper goal of an additional ten percent (10%) of the average actual General Fund revenues for the preceding five fiscal years. These funds will not be appropriated except to cover emergencies and unexpected declines in revenue in the following budget year. To the extent these reserves are expended, the City will increase its General Fund revenues or decrease its expenditures to the extent necessary to prevent the continued use of these reserves. Additional funds necessary to restore this additional ten percent (10%) amount will be provided in at least approximately equal contributions during the three fiscal years following the fiscal year in which the event occurred.
- 2.04 Funds in excess of the upper goal will be retained in the Undesignated General Fund Balance, and may be considered to supplement "pay as you go" capital outlay expenditures, or may be used to prepay existing City debt. These funds may not be used to establish or support costs that are recurring in nature.
- 2.05 The 'Contingency' funds can only be authorized for expenditure by action of the City Council.
- 2.06 The City will maintain a 'Contingency Fund' in the Irrigation and Drainage District Fund, Wastewater Fund and Highway Users' Revenue Fund of five percent (5%) of the average actual revenues for the preceding five fiscal years. This fund may only be used to cover emergencies and unexpected declines in revenue. The funds can only be authorized for expenditure by action of the City Council. To the extent these reserves are expended, the City will increase its revenues or decrease its expenditures to the extent necessary to prevent the continued use

of these reserves. Additional funds necessary to restore the five percent (5%) amount will be provided in at least approximately equal contributions during the three fiscal years following the fiscal year in which the event occurred.

III Expenditure Control

Management must ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with legal requirements.

- 3.01 Expenditures will be controlled by an annual budget at the division level. The City Council shall establish appropriations through the budget process. The Council may transfer these appropriations as necessary through the budget amendment process. Administrative approval and processing of certain budget transfers within departments is governed by OPP 2.07.
- 3.02 The City will maintain a purchasing system that provides needed materials in a timely manner to avoid interruptions in the delivery of services. All purchases shall be made in accordance with the City's purchasing policies, guidelines and procedures as contained in the Lake Havasu City Code §3.10, OPP 2.11, and OPP 2.17, and applicable state and federal laws. The City will endeavor to obtain supplies, equipment and services as economically as possible.
- 3.03 Expenditures will be controlled through appropriate internal controls and procedures in processing invoices for payment.
- 3.04 The City shall pay applicable contractor invoices in accordance with the requirements of Arizona Revised Statutes 34-221.
- 3.05 The State of Arizona sets a limit on the expenditures of local jurisdictions. The City will comply with these expenditure limitations and will submit an audited expenditure limitation report, audited financial statements, and audited reconciliation report as defined by the Uniform Expenditure Reporting System (ARS §41-1279.07) to the State Auditor General each year.
- 3.06 The City will monitor the expenditure limitation every year and may choose to pursue a periodic adjustment to its expenditure limitation. This adjustment may be every four years through the City submitting an alternative expenditure limitation (Home Rule) option for approval by the voters at a regular City election (Article IX, Section 20, Subsection 9, Arizona State Constitution). The City may choose to pursue other legally permitted adjustments to its expenditure limitation such as through voter approval of a permanent base adjustment (Article IX, Section 20, Subsection 6, Arizona State Constitution).

IV Revenues and Collections

All government employees are considered stewards of public funds. In order to provide funding for service delivery, the City must have reliable revenue sources. These diverse revenues must be collected equitably, timely, and efficiently.

- 4.01 The City's goal is a General Fund revenue base balanced between taxes, intergovernmental shared revenues, and other revenue sources such as licenses and permits, user fees, and other miscellaneous revenues.
- 4.02 The City will maintain a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations in any one revenue source by doing the following:
 - a) Establishing new charges and fees as needed and as permitted by law
 - b) Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees
 - c) Aggressively collecting all revenues, late penalties and related interest as authorized by the Arizona Revised Statutes
- 4.03 The City will monitor all taxes to insure they are equitably administered and collections are timely and accurate. Fees and charges should be based on benefits and/or privileges granted by the City, or based on costs of a particular service.
- 4.04 The City should pursue intergovernmental aid for those programs and activities that address a recognized need and are consistent with the City's long-range objectives. Any decision to pursue intergovernmental aid should include the consideration of the following:
 - a) Present and future funding requirements
 - b) Cost of administering the funds
 - c) Costs associated with special conditions or regulations attached to the grant award
- 4.05 The City will attempt to recover all allowable costs--direct and indirect--associated with the administration and implementation of programs funded through intergovernmental aid. In the case of other governmental entities and school districts, Council may determine to recover less than full cost of services provided. In the case of State and federally mandated programs, the City will attempt to obtain full funding for the service from the governmental entity requiring the service be provided. Allowable costs will be determined based upon a "Cost Allocation Study" prepared periodically.

V User Fee and Service Charge Cost Recovery

User fees and charges are payments for purchased, publicly provided services that benefit specific individuals. The City relies on user fees and charges to supplement other revenue sources in order to provide public services. User fees are administered according to City Code §3.20, Fee and Service Charge Revenue/Cost Comparison and Charging System.

- 5.01 The City may establish user fees and charges for certain services provided to users receiving a specific benefit.
- 5.02 User fees and charges will be established to recover all direct and indirect costs of service, unless the percentage of full cost recovery has been reduced by specific action of the City Council. It is recognized that occasionally competing policy objectives may result in reduced user fees and charges that recover only a portion of service costs.
- 5.03 The City will attempt to recalculate the full costs of activities supported by user fees to identify the impact of inflation and other attendant costs on a yearly basis in conjunction with the budget process.

VI Development Impact Fees

The Council requires that, to the extent possible, growth pay for itself. As such, the Council has adopted a system of development impact fees. Development impact fees are one-time charges assessed against new customers to recover a proportional share of capital costs incurred to provide service capacity for new customers. Appropriate development fees are an important component in the overall strategy for pricing services.

- 6.01 City's objectives for development impact fees shall include the following:
 - a) Support the cost of growth
 - b) Minimize the impact of growth on existing customers
 - c) Develop cost justified development fees
 - d) Address infrastructure requirements
 - e) Promote economic development
 - f) Provide financial capacity
- 6.02 In general, development impact fees must be based on a rational analysis. This analysis will include:
 - a) the need for impact fees is a result of growth
 - b) the amount of the fee does not exceed the reasonable cost to provide capacity to accommodate growth
 - c) the funds collected must be adequately earmarked for the sufficient benefit of new customers required to pay the fee
- 6.03 Development impact fees will be maintained for the following purposes:
 - a) Parks, recreation facilities, rivers and trails and open space
 - b) Law enforcement
 - c) Fire protection
 - d) General government
 - e) Transportation
 - f) Water
 - g) Water resources
 - h) Wastewater
- 6.04 The City shall conduct a review of its development impact fees on no less than a biannual basis.

VII Community Investment Program and Asset Replacement

The purpose of the Community Investment Program is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance to established policies and goals. The Asset Replacement Program is designed to plan for the replacement of certain capital assets.

- 7.01 The City Manager will annually submit a ten-year Community Investment Program for review by the City Council pursuant to the timeline established in the annual budget preparation schedule. Submission of the Community Investment Program shall be consistent with the requirements of ARS §42.17101 through §42.17103.
- 7.02 The Community Investment Program shall provide:
 - a) An implementation program for each of the capital Investments
 - b) An annual updated estimate of each project's costs, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on City revenues and operating budgets
 - c) For the systematic improvement and maintenance of the City's capital infrastructure
 - d) Debt ratio targets that comply with the Debt Management section of these policies
 - e) A schedule of proposed debt issuance
- 7.03 The City will match programs and activities identified in the Community Investment Program with associated funding sources.
- 7.04 The City's objective will be to dedicate to the Community Investment Program at least 2% of the annual General Fund revenues allocated to the City's operating budget. This will supplement funding from other sources such as IGAs, bonds, impact fees and grants.
- 7.05 When current revenues or resources are available for Community Investment projects, consideration will be given first to those capital assets with the shortest useful life and/or to those capital assets whose nature makes them comparatively more difficult to finance with bonds or lease financing. Using cash for projects with shorter lives and bonds for projects with longer lives facilitates "intergenerational equity", wherein projects with long useful lives are paid over several generations using the project through debt service payments.
- 7.06 Community Investment projects will not be budgeted, authorized or awarded until the funding sources have been identified to finance the project.
- 7.07 The Community Investment Program will monitor projects in progress to insure their timely completion or the substitution of alternative projects. A prior year

capital project status report shall be presented to the City Council for information purposes when the Community Investment Program budget is considered.

- 7.08 Within 90 days of the completion of a capital project any remaining appropriated funds for the project will be closed off. Excess funds may be used for other project shortfalls with the approval of the City Council. Funds not used will revert to the fund balance of the funding source.
- 7.09 An effective fixed asset accounting system is important in managing the City's fixed asset investment. As such, the City will maintain a schedule of fixed assets with values in excess of \$5,000. All items less than \$5,000 will be recorded as operating expenditures.
- 7.10 The City will provide replacement funding for fleet vehicles and equipment using a Vehicle Replacement Fund and cash funding for computer equipment. The replacement schedule will be updated as part of the annual budget process.
- 7.11 The City will maintain a listing of capital infrastructure. This list will be used to analyze City infrastructure to provide for maintenance and replacement through the City's Community Investment Program and annual operating budget.

VIII Cash Management and Investment

Cash management includes the activities undertaken to ensure maximum cash availability and maximum investment yield on a government's idle cash.

- 8.01 The Finance Director, as Chief Investment Officer, or their designee shall invest all funds of the City according to four criteria, in order of their importance: (1) legality, (2) safety, (3) liquidity, and (4) yield.
- 8.02 The City shall maintain and comply with a written Investment Policy that has been approved by the City Council.
- 8.03 The City will collect, deposit and disburse all funds on a schedule that insures optimum cash availability for investment.
- 8.04 In order to maximize yields from its overall portfolio, the City will consolidate cash balances from various funds for investment purposes, and will allocate investment earnings to each participating fund.
- 8.05 The City will maintain a cash flow tracking system for use in projecting the cash needs of the City to optimize the efficiency of the City's investment and cash management program.
- 8.06 The City will conduct its treasury activities with financial institution(s) based upon written contracts.
- 8.07 Ownership of the City's investment securities will be protected through third party custodial safekeeping.
- 8.08 All City bank accounts shall be reconciled and reviewed on a monthly basis.
- 8.09 Investment performance will be measured using standard indices specified in the City's written investment policy. The Finance Director shall provide the City Council with a quarterly investment report within 60 days of the end of each quarter.
- 8.10 The City's cash management and investment processes will be in accordance with written internal controls and procedures.

IX Debt Management

The purpose of this debt management policy is to provide for the preservation and eventual enhancement of the City's bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument covenants and provisions and required disclosures to investors, underwriters and rating agencies. These policy guidelines will also be used when evaluating the purpose, necessity and condition under which debt will be issued. These policies are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, Arizona Revised Statutes, federal tax laws and the City's current bond resolutions and covenants.

- 9.01 The City shall maintain and comply with a written Debt Management Policy that has been approved by the City Council.
- 9.02 The overall debt management policy of the City is to ensure that financial resources of the City are adequate in any general economic situation to allow the City to pay its debts when due.
- 9.03 The City will maintain debt ratios within the Arizona Constitution limits.
- 9.04 The City will manage the debt program with the assistance of a financial advisor and bond counsel.
- 9.05 All projects funded with general obligation bonds of any value or revenue bonds in excess of \$10 million can only be undertaken after voter approval through a citywide bond election.
- 9.06 The City will not use long-term debt to fund current operations or projects that can be financed from current revenues or resources. The City will first attempt "pay as you go" capital financing for projects less than \$1,000,000.
- 9.07 The City shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
- 9.08 The City shall comply with all requirements of Arizona Revised Statutes Title 35 and other legal requirements regarding the issuance of bonds and certificates of the City or its debt issuing authorities.
- 9.09 The City will maintain regular contact with rating agencies through meetings and visits on and off-site. The City will secure ratings on all bonds issued if economically feasible.
- 9.10 Restructuring, refinancing, and advance bond refunding are used to limit the City's debt service costs and to provide maximum future borrowing flexibility.

X Enterprise Funds

Government enterprises generate revenue to offset the cost of providing certain services including water, wastewater, sanitation, airport, and recreation/aquatic center. User charges are established to offset the cost of providing these services in accordance with City Code §3.20, Fee and Service Charge Revenue/Cost Comparison and Charging System. The accounting systems must be established to separate these revenues and expenses.

- 10.01 Separate funds will be established and maintained to properly account for each enterprise operation. Enterprise funds will not be used to subsidize the operations of other funds. Interfund charges will be assessed for the administrative support of the enterprise activity.
- 10.02 The City will establish rates and fees at levels that fully cover the total direct and indirect costs, including operations, capital outlay, debt service and bonded debt coverage requirements for water, wastewater, and sanitation services.
- 10.03 All existing water, sewer and sanitation rates and charges will be reviewed annually to recommend changes in order to maintain a minimum bonded debt coverage of at least 1.2 times. The target debt coverage ratio will be 1.5 times. The coverage ratio will be calculated without consideration of expansion fee revenue.
- 10.04 Lake Havasu City's Enterprise Operating Fund working capital will be maintained to provide the City with a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The working capital goal for the water and wastewater enterprise operating funds is seventy-five percent (75%) of the actual operating revenue for the current fiscal year. These goals will be calculated exclusive of the reserves required to maintain the integrity of these systems.
- 10.05 A water and a wastewater capital revolving fund will be established to provide cash reserves to fund renewal and replacement capital projects prior to issuing debt.

XI Economic Development

Economic development in its simplest form is the creation of economic wealth for all citizens so that all people have access to potential increased quality of life. It is an important tool to sustain an increase in living standards that implies increased per capita income, better education and health as well as environmental protection for the community.

- 11.01 The City will expand and diversify its economic base by attracting industrial, office and commercial firms to the City. Special emphasis will be given to industrial, office and commercial enterprises that will employ the local labor force in professional, technical and skilled labor positions. Such business and industry will be sited and developed in accordance with the plans and ordinances of the City.
- 11.02 The purpose of this Policy is to establish guidelines for focusing a special emphasis on economic development efforts and incentives that encourage value-added development and accrue public benefits to Lake Havasu City. A public benefit may include:
 - a) A benefit that materially enhances the financial position of the City by increasing the employment base, assessed valuation or general and special use tax revenues
 - b) A general benefit received from the provision of a capital improvement or contribution to the basic infrastructure of the City that is greater than that benefit which would be required of the development alone
 - c) A benefit that increases access to other public services
- 11.03 The City's goal is to create employment opportunities for its residents by providing a network of public infrastructure and facilities that link planned industrial and commercial areas with its growing residential areas.
- 11.04 The City will endeavor to achieve a 25% non-residential tax base by increasing the percentage of commercial/industrial tax base.
- 11.05 Development incentives for commercial projects shall generally only be provided for developments with a regional commercial impact. Regional is defined as a service area in the Colorado River corridor from I-40 to the Bill Williams River. These projects must demonstrate that additional revenue will be generated to the City, rather than a redistribution of existing revenue.
- 11.06 Office, business park and industrial projects within the City shall be considered for special emphasis when the project demonstrates at least one of the following:
 - a) Provides quality direct employment opportunities for Lake Havasu City citizens
 - b) Provides additional indirect employment opportunities through primary and secondary employment generation to Lake Havasu City residents

- c) Significant increase in property tax revenues accruing to the City
- d) Goods and/or services are purchased within Lake Havasu City
- e) Expands the labor base with jobs that meet specific criteria
- f) Provides needed public infrastructure
- g) Goods are produced and exported and sales dollars imported into Lake Havasu City
- h) Offers unique recreational opportunities or cultural enhancements for the residents of Lake Havasu City

11.07 The City may consider a variety of development incentives to encourage development, which is clearly a benefit to the City. Incentives may include, but are not limited to, one or more of the following:

- a) Formation of improvement districts
- b) Formation of Community Facilities Districts
- c) Intergovernmental Agreements (IGAs) with other agencies for projects which will provide benefit to multiple jurisdictions
- d) Use of Industrial Development Authority Bonds
- e) Use of development mechanisms available to the City in redevelopment districts, including funding opportunities where appropriate
- f) Use of State of Arizona Enterprise Zone Tax Credits
- g) Reimbursement and/or waiver of certain fees and charges
- h) Use of Economic Incentive Zones as approved by City Council
- i) Provision for allowing credits for off-site public infrastructure development costs against future City transaction privilege tax revenues
- j) Use of discount lease rates on City-owned property coupled with reversion clauses for improvements constructed on the property
- k) Use of Government Property Leasing Excise Tax (GPLET)

11.08 The City may agree to provide expedited plan review, development agreement processing, and permit processing.

11.09 The proposed development project shall typically be “performance based” so that the developer only receives the incentive if its performance meets selected criteria set forth in the development agreement. Other guidelines may apply to a project, which contributes to the overall benefit of the City in other ways, (e.g. downtown revitalization or development in specific target areas).

11.10 The City may require a developer requesting development incentives to fund a fiscal impact analysis of the proposed project. The City will evaluate the economic costs, economic benefits, intrinsic benefits and levels of each type of risk that are associated with the project requesting an economic development incentive, as well as the financial impact of all such incentives on the City’s operating and capital budgets.

- 11.11 The fiscal impact evaluation shall be presented to the City Council by the City Manager, along with any recommended economic development incentive. The City Council shall make the final decision concerning proposed economic development incentives, including the terms and conditions contained within any proposed memorandum of understanding or development agreement.
- 11.12 Certain exclusions, limitations, disclosure, and collateral requirements apply to these incentives.
- a) Development incentives shall not normally be provided to offset buy-out fees to obtain release from the Certificate of Convenience and Necessity for a private water company.
 - b) Under current practice, a repayment agreement allowing credit offsets against future transaction privilege tax generally limits the level of reimbursement to one-half (1/2) of one percent of privilege tax generated and the duration to a maximum of five to seven years. Additional level of reimbursement up to one percent of privilege tax generated or extended duration beyond seven years may be considered by the City for approval depending on the economic benefit to be derived from the proposed project.
 - c) Failure to operate facilities developed under a development incentive plan will require the developer to repay the City for certain amounts that may have been advanced, or costs that the City has incurred.
 - d) Residential development normally will not be provided any incentive package unless a clear net benefit to the City can be demonstrated or other public purpose served (e.g., in-fill projects in a maturing area of the City to retain existing businesses, workforce housing projects, etc.).

XII Risk Management

Risk management has become increasingly important in guarding against economic loss and in ensuring public safety in a time of increasing public liability and litigation. Risk management is involved in the identification, evaluation, and treatment of the City's risk.

- 12.01 The City shall make diligent efforts to prevent or mitigate the loss of City assets and to reduce the City's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.
- 12.02 When cost effective, the City shall manage its exposure to risk through self-insurance or through the purchase of traditional third-party insurance in the following areas: general liability, automobile liability, public officials' errors and omissions, police professional liability, property loss and workers' compensation.
- 12.03 When cost effective, the City will further control its exposure to risk through the use of "hold harmless" agreements in City contracts and by requiring contractors to carry liability insurance.
- 12.04 Insurance reserves shall be maintained at a level which, together with any purchased insurance, will adequately indemnify the City's assets and its elected officials, officers and directors against loss. A regular study will be conducted for potential liability areas and shall be used as a basis for determining self-insurance reserves based on historical loss data.
- 12.05 The City will identify and disclose any material contingent liabilities in the City's Comprehensive Annual Financial Report (CAFR).

XIII Accounting, Auditing and Financial Reporting

Accounting, auditing and financial reporting form the informational infrastructure for public finance. Internal and external financial reports provide important information to the City's legislative body, management, citizens, investors and creditors.

- 13.01 The City will comply with generally accepted accounting principles (GAAP) in its accounting and financial reporting, as contained in the following publications:
- a) Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standard Board (GASB)
 - b) Pronouncements of the Financial Accounting Standards Board, (FASB)
 - c) Governmental Accounting, Auditing, and Financial Reporting (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada
 - d) Municipal Budget and Finance Manual, prepared by the League of Arizona Cities and Towns
 - e) Audits of State and Local Governmental Units, an industry audit guide published by the American Institute of Certified Public Accounts (AICPA)
 - f) Government Accounting Standards, issued by the Controller General of the United States
 - g) U.S. Office of Management and Budget (OMB) Circular A-133, issued by the U.S. Office of Management and Budget
- 13.02 Monthly financial reports will be issued to the City Manager and all departments summarizing financial activity comparing actual revenues and expenditures with budgeted amounts.
- 13.03 A system of internal accounting controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions of the City and compliance with applicable laws and regulations.
- 13.04 In accordance with State law, a comprehensive financial audit, including an audit of federal grants according to the Single Audit Act of 1984 and the OMB Circular A-133, will be performed annually by an independent public accounting firm, with the objective of expressing an opinion on the City's financial statements. The City will prepare its financial statements in accordance with applicable standards and will account for its operations in a manner consistent with the goal of obtaining an unqualified opinion from its auditors.
- 13.05 The City will prepare a Comprehensive Annual Financial Report (CAFR) in accordance with the principles and guidelines established by the Government Finance Officers Association "Certificate of Achievement for Excellence in Financial Reporting" program. The CAFR will be issued by December 31 of each year for the preceding fiscal year or as required by the Arizona Revised Statutes.

- 13.06 All departments will provide notice of all significant events and financial and related matters to the Finance Director for the City's annual disclosures, as required by the SEC Regulation 15-C-2-12, to the municipal markets, financial statements and bond representations. A listing of significant events is included in Appendix A to this document. The Finance Director will notify all Nationally Recognized Municipal Securities Information Repositories of these significant events.
- 13.07 The City's Comprehensive Annual Financial Report will include the bond related on-going disclosure requirements and will fully disclose all significant events and financial and related issues as provided by the departments to the Finance Director. The City will provide the CAFR to the rating agencies, municipal bond insurers and national bond disclosure repositories.

XIV Policy Review

By their nature policies must change and evolve over time. As with any other policies, these financial policies should be subject to periodic review and revision.

14.01 The City Council will review and affirm the financial policies contained in this document every three years.

Appendix A Reporting of Significant Events (Continuing Disclosure Requirements)

If knowledge of the occurrence of a listed event would be material to the City, the City shall promptly file a “Notice of Material Event” with the Municipal Securities Rulemaking Board and with each depository. The following events are defined as significant events with respect to municipal securities.

- 1) Principal and interest payment delinquencies
- 2) Non-payment related defaults
- 3) Unscheduled draws on debt service reserves reflecting financial difficulties
- 4) Unscheduled draws on credit enhancements reflecting financial difficulties
- 5) Substitution of credit or liquidity providers or their failure to perform
- 6) Adverse tax opinions or events affecting the tax-exempt status of the securities
- 7) Modifications to rights of holders (i.e. owners)
- 8) Bond calls (which are other than mandatory or scheduled redemptions, not otherwise contingent upon the occurrence of an event are optional or unscheduled)
- 9) Defeasances
- 10) Release, substitutions or sale of property securing repayment of the securities (including property leased, mortgaged or pledged as such security)
- 11) Bond rating changes